Advanced Gold Project in Kazakhstan

Achieved Significant Milestones

alhambra

Alhambra Resources Ltd. – 2005 Annual Report

Gold recovery plant - Uzboy gold deposit

COMPANY OVERVIEW

Alhambra Resources Ltd. ("Alhambra", the "Corporation" or the "Company") is a Canadian based international production and exploration company celebrating its fourth year of operations in the Republic of Kazakhstan. It is engaged in the exploration and development of gold properties and commenced gold production in late 2004. Alhambra's shares are listed for trading in Canada and Germany.

NOTICE OF SHAREHOLDERS' MEETING

The Annual and Special General Meeting of Shareholders will be held at 2:30 p.m. (Mountain time) on Wednesday, June 21, 2006 at the Westin Hotel, 320 - 4th Avenue S.W., Calgary, Alberta, Canada. All shareholders are encouraged to attend and participate in the meeting. Those unable to attend should vote by proxy. The terms used throughout our Annual Report are defined, and summarized on the inside of the back cover. All numbers are in Canadian dollars unless otherwise indicated.

Uzboy gold deposit – West zone mining operations

2005 Highlights & Achievements

ACHIEVEMENTS

- Raised C$8.4 million via capital markets to fund operations
- Divested 100% of its oil and natural gas properties
- Recovered 14,800 ounces of gold from heap leach test
- Generated C$6.1 million from gold sales
- Exploration success in the West zone of the Uzboy gold deposit
- Identified three areas of gold mineralization near the Uzboy gold deposit

FINANCIAL HIGHLIGHTS

Years ended December 31

(Expressed in Canadian dollars, except per share amounts)	2005	2004	2003
FINANCIAL			
Loss from continuing operations	**1,256,011**	999,109	1,112,308
Per share (basic and diluted) ($)	**0.03**	0.03	0.05
Deferred exploration and development costs	**17,433,844**	11,411,289	6,097,388
Expenditures on mineral properties, equipment and deferred exploration and development costs	**6,039,066**	5,235,963	2,451,053
Total assets	**20,132,875**	12,083,942	6,471,001
Total liabilities	**3,302,920**	4,429,223	2,557,811
Cash, end of year	**708,593**	82,488	29,982
Shares outstanding at December 31	**50,478,230**	35,233,612	26,369,472

OPERATING ACHIEVEMENTS

- Recovered 14,800 ounces of gold from heap leach test
- Average cash operating cost to recover gold was estimated at US$267 per ounce
- Placed 776,000 tones of oxide gold mineralization under leach
- Increased exploration targets from 110 to 125
- Commenced the construction of a resin stripping plant
- Explored the primary mineralization at the Uzboy gold deposit
- Commenced exploration of four other advanced mineralized areas
- Located numerous highly prospective mineralized targets

2006 OBJECTIVES

- Further define and delineate advanced exploration targets
- Expand focus to include poly-metallic potential
- Increase gold recovery to at least 25,000 ounces
- Achieve 100% utilization of the gold recovery plant
- Increase exploration capital spending to US$4.0 million
- Increase drilling by 70% to 60,000 metres
- Increase trenching by 50% to 33,000 metres
- Identify the optimal methodology for recovering gold from the sizeable "primary" mineralization within the Uzboy gold deposit
- Complete construction of the resin stripping plant

A Message to Shareholders

John J. Komarnicki

Elmer B. Stewart

We are very pleased to report that during 2005 Alhambra achieved a number of Significant Milestones which will form the basis for continued growth in shareholder value in the future.

Firstly, we were successful in raising over $8.4 million through the issuance of common shares pursuant to several private placements and the exercise of common share purchase warrants. This cash has been effectively used to fund our 2005 capital program and to pay down outstanding debt.

Secondly, Alhambra completed the sale of its oil and natural gas assets, the proceeds from which were also used to fund capital programs in Kazakhstan and to retire debt. With the disposition, management is now 100% dedicated to the development of the Uzboy Gold Project (the "Uzboy Project") in north central Kazakhstan.

Thirdly, a major milestone was achieved in 2005 with the first gold sale from a heap leach test initiated late in 2004 on the oxide zone at the Uzboy gold deposit. The achievement was even more impressive considering it occurred within 30 months of acquiring the project. Total gold production for 2005 was 14,800 troy ounces at an estimated average cash cost of US$267 per ounce while operating the gold recovery plant at only 50% of design capacity. We were very pleased with this level of gold production for it confirmed our ability to produce gold effectively even through variable and difficult weather conditions. Given these results, expectations are that production should exceed 25,000 ounces of gold in 2006 as the gold recovery plant reaches full capacity of 1,200,000 tonnes of material under leach on an annualized basis.

Fourthly, with cash in treasury, we were able to begin an aggressive program of exploring our large land base through drilling and trenching. The results of our 2005 drilling campaign were very successful and lead to the announcement in early 2006 of six significant new gold discoveries. These gold discoveries have increased the number of zones of gold mineralization on the Uzboy Project from 110 to 125. Based on the results of the 2005 drilling campaign, we will commence a more detailed and aggressive drilling program in 2006 with the objective to evaluate the new gold prospects which we have identified. In particular, we will continue to delineate the primary gold mineralization identified in the West and East zones of the Uzboy gold deposit and conduct exploration on 20 of the 125 targets that have been identified to date.

Finally, we've been focused on increasing efficiency. In 2005 we commenced the construction of a resin stripping plant and operations base which will be commissioned in the last half of 2006. Not only will the resin stripping plant shorten the time required to convert gold on resin to cathodic sediment, but it will also ensure that this critical component of the gold production process, currently contracted to a third party, is controlled by the Company.

LOOKING FORWARD

With the goal of creating a significant and recognizable gold production company, our key focus for 2006 will be on:

- **Increasing gold recovery to at least 25,000 ounces**
- **Achieving 100% utilization of the gold recovery plant**
- **Increasing exploration capital spending to US$4.0 million**
- **Increasing drilling by 70% to 60,000 metres**
- **Increasing trenching by 50% to 33,000 metres**
- **Identifying the optimal methodology for recovering gold from the sizable "primary" mineralization within the Uzboy gold deposit**

Our objective in 2004 was to commence leaching on our Uzboy Project before the end of 2004. We have been successful in doing so. The results achieved in 2005 were due to management's prior experience in the development and operation of resource projects in Kazakhstan and to the efforts and dedication of the management and staff of our operating subsidiary Saga Creek Gold Company LLP.

The strong base established in 2005 will be the foundation for success in 2006 and beyond. A rapid growth profile lies ahead for the Company, with an objective to increase gold recovery in 2006 and set the stage to achieve our corporate objective to produce 210,000 ounces of gold annually by the year 2010. Management and staff are prepared to meet the challenges presented to achieve Alhambra's goal of becoming a significant gold exploration and production company.

Our corporate goal is to build shareholder value through the exploration and development of the Uzboy Project and to investigate the potential acquisition of other large projects. We have the key elements in place to continue building significant value in your Company and we look forward to reporting to you on our progress over the next year.

A big thank you to our shareholders. We appreciate and gratefully acknowledge the support you have shown us over the last year.

On behalf of the Board of Directors

John J. Komarnicki
Chairman and Chief Executive Officer

Elmer B. Stewart
President and Chief Operating Officer

April 26, 2006

Chairman's Questions and Answers

Q&A

Q Are you happy with the level of gold production that you achieved in 2005?

A Yes, we are very happy with the 14,800 ounces of gold we produced from the test operation in 2005. We commenced leaching in December 2004 and experienced extreme winter weather conditions until the end of April 2005. During the balance of 2005 we achieved our plan for stacking and determined the operating parameters of the operation, especially under variable weather conditions. The estimated cash cost per ounce of gold recovered was US$267. This is substantially less than the 2005 industry average. And, this was achieved by using only 50% of the gold recovery plant design capacity.

Q You expect production to almost double in 2006. How will you accomplish this?

A At year end 2005, we had 776,000 tonnes stacked which was approximately 65% of design capacity. This is the basis for the 2006 operating plan. We have the required number of shovels and haul trucks on site to reach 100% of project design capacity in the second half of 2006.

Q Are you looking at acquisitions as another means of growth?

A Certainly. With a sizable land position strategically located in Kazakhstan with 125 currently identified gold targets, our primary focus is to explore the potential of the Uzboy Project. However, the combination of the sizable asset base, highly qualified personnel and strong financial position has resulted in others approaching us to look at potential acquisition deals. We are continually evaluating such opportunities. Should any meet our criteria, we will certainly be prepared to act on them.

Q You recently announced the acquisition of 105 mineral claims focused on copper in south-central British Columbia, Canada. Why did you buy this?

A The recent acquisition which we made is referred to as the Dot Property. It is located 50 kilometres south of the city of Kamloops and 20 kilometres southeast of the world class Highland Valley copper district in the province of British Columbia. We earned a 51% working interest in the Dot Property back in 1997 and had an opportunity to consolidate our interests.

Therefore, we increased our interest to 100% on the existing mineral claims held and also acquired 100% in 50 mineral claims surrounding the Dot Property. Now that we have total control of this asset, it will provide additional growth upside in the exploration for base metals in Canada. This acquisition will not detract from our main focus on gold in Kazakhstan and Central Asia.

Q **Why do you believe that you have the making of a world class gold property?**

A The Uzboy Project covers a very large area of 2.7 million acres in an area known to host over 50% of the established gold resources of Kazakhstan. In addition, multi-million ounce gold deposits occur adjacent to our project. The geological environment, the number of gold targets and the size of the mineralized zones explored in 2005 suggests that the potential to find another multi-million ounce gold deposit within the Uzboy Project is high.

Q **Where does Kazakhstan rank as a global gold producer?**

A Kazakhstan is a small producer in the context of world gold production, however, the gold resources it hosts is of significance. Kazakhstan hosts 20% of the world's gold resources and has good potential to find additional resources in previously unexplored geological environments. If the known gold resources are developed, Kazakhstan's annual gold production could increase substantially.

Q **Will you need to raise capital to achieve your 2006 capital program? Under what circumstances might you need to raise capital?**

A Our 2006 projected level of gold recovery is 25,000 ounces. Based on our projected cost and revenues (of selling gold at US$500 per ounce), we expect to generate approximately US$6.5 million in cash from operations. Our capital program, including a contingency for additional diamond drilling, is projected to be US$5.9 million. Based on these projections, we estimate that we will exit the year with a surplus of cash on hand. We have established an aggressive growth profile for the Company. Acquisitions, exploration and increasing our annual gold production are key components to achieving our growth profile. Additional capital may be required if we acquire another world class property.

Q **Where does your shareholder strength lie?**

A Officer and directors of Alhambra hold 29% of the shares currently outstanding. This is a clear indication to shareholders that management is a strong believer in the assets and growth prospects of this Company. This is one of our strengths. In addition, we have a solid North American institutional shareholder base of just over 20%. Starting in 2006 we will be focused on building a more diverse shareholder base. With our recent listing on the Frankfurt open market, we will be increasing our efforts in getting European and Asian investors more familiar with us.

Q **What misperceptions do you face in the investment community today?**

A The biggest misperception we have is with investors views on the geopolitics within Kazakhstan. Most investors are not experts in geopolitics. Their lack of familiarity with most former Soviet block countries including Kazakhstan is translated into the phrase "political risk", of which we don't agree. Our management team has been operating in Kazakhstan since the early 1990s and has had considerable success in building companies in the Former Soviet Union. Given our experience over the last 15 years, we don't feel there is a risk that is not manageable. Kazakhstan has been an independent, sovereign nation since December 1991. The government of Kazakhstan has embraced its independence. It has been very successful in establishing economic and political systems which have

enabled Kazakhstan to become recognized as a free market economy with an investment grade rating. Kazakhstan is pro foreign investment and is growing rapidly. It is working on accession into the World Trade Organization. While significant progress continues to be made on this issue, we still have to continually educate investors on Kazakhstan.

Q Can you comment on your management team?

A We have a dedicated management team that has spent a considerable amount of time building successful companies in Kazakhstan and other Soviet Block countries. This experience has led to a team that is both politically and culturally aware of the unique challenges that must be addressed when operating in Kazakhstan. The Canadian management team is supported by the management of Saga Creek Gold Company LLP, our wholly owned subsidiary in Kazakhstan. The management of Saga Creek has been involved in the exploration, construction and operation of mines in Kazakhstan over the past 30 years. Their operating experience combined with our knowledge of finance and capital markets makes for a well rounded, powerful management team.

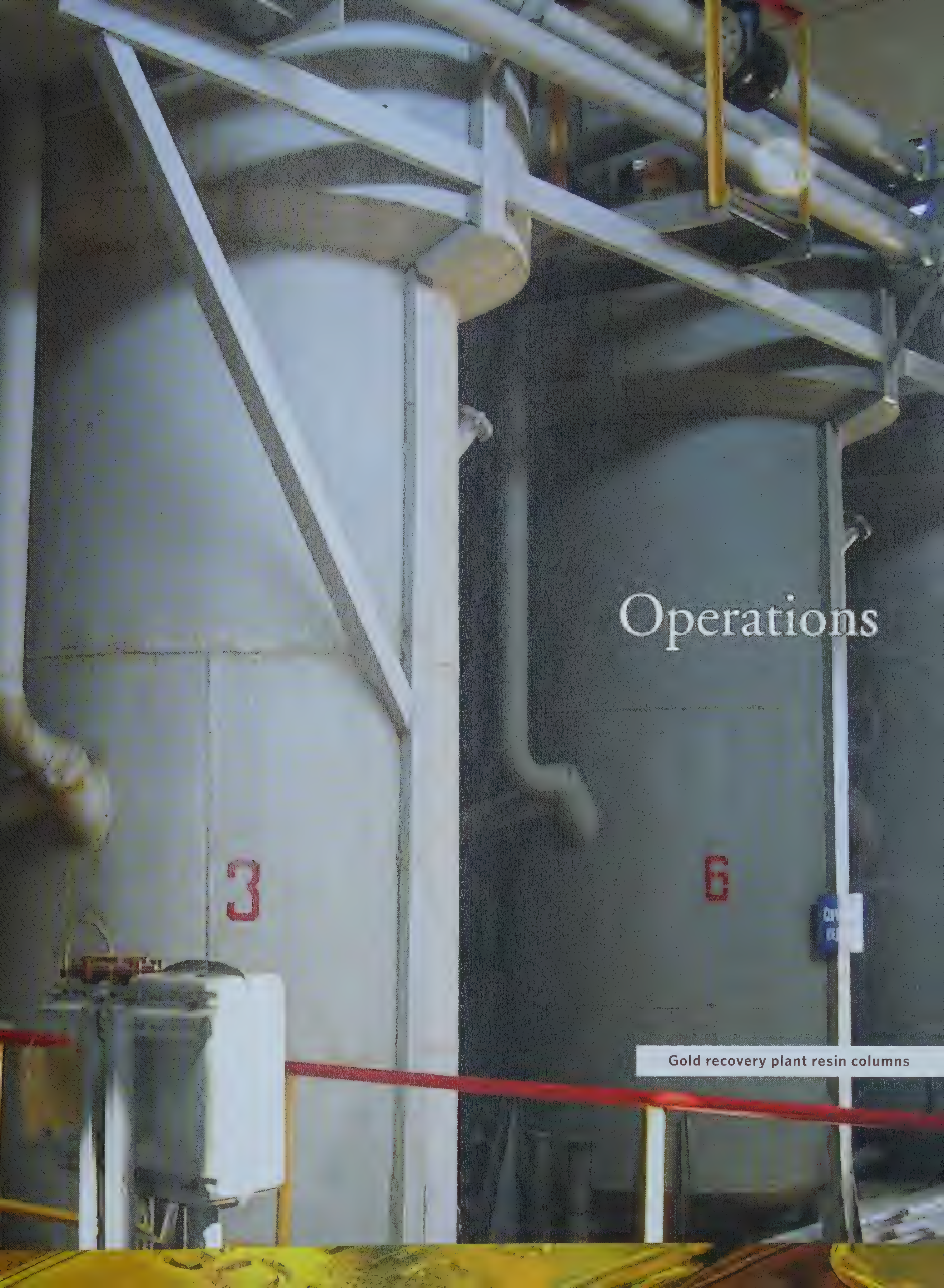
Q What changes should we expect to see in Alhambra over the next three years?

A As stated earlier, we have developed an aggressive growth profile for Alhambra. We are currently evaluating one advanced target, the Dombraly zone, to determine the possibility of advancing this zone to a large scale semi-industrial test, similar to our existing Uzboy heap leach test. A positive decision on Dombraly combined with our 2006 plan for the Uzboy gold deposit could see our gold recovery increase to approximately 60,000 ounces per year in 2008. The exploration of the West zone at the Uzboy gold deposit has yielded positive results in 2005. This will be our primary exploration target in 2006. If our exploration model and target for the Uzboy area are verified, the development of this zone, consisting of a feasibility study and preliminary engineering work, would commence in 2008.

Q Why should someone invest in Alhambra today?

A The basis for valuing a gold company is its cost to produce an ounce of gold and potential to increase its resource base. Alhambra's Uzboy Project is located in an area known to host a substantial number of world class multi-million ounce gold deposits. Alhambra is in the early stages of exploration of this strategically located project. Our 2005 exploration program was very successful. We expanded the dimensions of the Uzboy gold deposit, located five other large areas of gold mineralization that have been advanced to the drill stage and we still have 120 other targets to be explored. These features strongly suggest that Alhambra has a world class project with world class potential. In addition, we offer a western management team operating under western governance and reporting criteria. For all these reasons, we believe Alhambra remains an outstanding investment opportunity.

Operations



Gold recovery plant resin columns

Operations Review

UZBOY GOLD PROJECT

The Uzboy Project has the potential to host a world class gold deposit. This is evidenced by the following:

- It covers 11,000 km^2 (approximately 2.7 million acres) in an area that contains over 50% of the gold resources identified in Kazakhstan
- It is strategically located between two "world class" gold deposits
- Three mineral trends which host 125 significant gold occurrences cross it
- Two past producing gold mines are located within its boundary

HEAP LEACHING

The Process

As recommended by ACA Howe International Limited, Alhambra commenced a large scale heap leach test to assess various parameters such as:

- Stacking techniques
- The average gold recovery rate
- Reagent consumptions per tonne of material leached
- Operating costs

These results provide the basis in determining the economic viability of the gold mineralization in the oxide portion of the Uzboy gold deposit.

The test heap leach operation conducted by Alhambra in 2005 is similar to other heap leach mining operations around the world. Drilling and blasting operations are a normal part of the mining operation and 30 tonne haul trucks are used to move the material from the open pit. Material with gold grades of greater than 0.5 grams per tonne ("g/t") is moved directly to the leach pads for stacking. Lower grade material (0.2 g/t and 0.5 g/t gold) is stockpiled for additional sampling. Depending on the additional sample results, this material is either moved to the leach pads or classified as waste.

Leach pads are impermeable structures designed specifically to retain the solution used in the leaching process. After the leach pads are stacked with gold bearing material, a solution containing very low concentrations of cyanide is applied to the heap utilizing a drip emitting system. The drip emitter system is preferred over other sprinkler systems available as it minimizes exposure of the solution to sunlight and prevents dispersion of the solution due to wind. This solution seeps down through the heaps dissolving the gold and is then pumped to the gold recovery plant.

In the gold recovery plant, the gold bearing solution is passed through a series of columns containing resin to recovery the gold from solution. When the resin is loaded (typically 8,000 to 10,000 grams of gold per tonne of resin), the resin is removed from the columns and shipped to a stripping plant. At the resin stripping plant, the gold is removed from the resin thereby producing a cathodic sediment. This cathodic sediment averages 85% gold and is shipped to Alhambra's gold marketing agent in Switzerland for refining and sale.

2005 Leaching Operations

a) Infrastructure

The infrastructure required to support the heap leach test was completed in 2004. It consists of a 110 person camp, a 17 kilometre ("km") hydroelectric line, 30 km of upgraded road and a gold recovery plant with a capacity to leach 1,200,000 tonnes


Europe
Kazakhstan
Africa
SE Asia
India
Charsk Gold Belt
Kazakhstan
N
W
E
S
Legend
0 250 500 km
0 150 300 mi
Capital
Major Cities
Uzboy
Gold Project
Major Gold
Deposits

Uzboy Gold Project

per year. A total of 210 people are employed in our operating subsidiary Saga Creek Gold Company LLP. The majority of these people are associated with the heap leach test, working a 12 hour shift basis with 15 day crew rotations.

b) Operating Cycle

The heap leach test at the Uzboy gold deposit operated over the entire 2005 year (one operating cycle). Typically, the lowest gold production from a heap leach mine in a northern climate occurs between January and March, due mainly to cold temperatures. Other factors such as tonnes of material under leach, temperature of solution from the heap and daily circulating solution volumes affect gold production from a heap leach operation.

Alhambra commenced 2005 with 140,000 tonnes under leach. Due to a prolonged period of colder than normal temperatures experienced in the first quarter of 2005, irrigation of the additional 140,000 tonnes that were stacked in 2004 did not commence until the second quarter of 2005. An extended period of wet weather in June delayed construction of new leach pad foundations. This created a lack of available pad space that slowed stacking operations during the second quarter of 2005. During the remainder of the year, stacking and gold recovery proceeded ahead of schedule, and by year end, 776,000 tonnes were stacked and under leach.

During 2005, the majority of the material stacked was taken from the West zone. In October 2005, mining operations commenced on the East zone located 300 metres ("m") east of the West zone pit. Two tonnes of waste were moved to each tonne of material stacked. This positive strip ratio is considered to be a low number in open pit mining operations. During 2005, an estimated 16,500 troy ounces ("ozs") of recoverable gold was stacked on the heaps. At year end 2005, approximately 15,000 ozs of gold remained to be recovered from the heaps. Other activities completed during 2005 included the construction of a new leach pad which will be stacked in 2006 and the foundation of a fourth leach pad.

The reagent consumption per gram of gold recovered is less than that indicated by the column leach test work on the oxide gold mineralization from the West and East zones. The percentage of gold recovery from the leaching operations is expected to average 70%. To the end of 2005, the estimated gold recovery from heap #1 was in excess of 70%.

The gold recovered in 2005, based on gold sales and estimated gold precipitated on resin at year end, was approximately 14,800 ozs.

During the first quarter of 2006, the leaching operations have been proceeding above expectations despite a period of extremely cold temperatures. As of the end of March 2006, an additional 3,800 ozs of gold have been recovered.

EXPLORATION PROGRAM

The Uzboy Project is underlain by three mineralized structural trends that host at least 125 significant gold targets. The Uzboy Project covers a total of 250 km of strike length of the three mineralized trends. The east-west striking Shatskaya trend crosses the northern part of the Uzboy Project and hosts the Vasilkovskoe and Uzboy gold deposits. The north-south striking Aksu-Bailusti trend crosses the east side of the Uzboy Project and hosts the Aksu gold deposits which are located three km south of the Shirotnaia zone of gold mineralization. The third trend referred to as the Atnsor trend crosses the Uzboy Project in the vicinity of the Stepnyak mine, a former gold producer. The Stepnyak mine is reported to have produced 800,000 ozs of gold.

As a result of the 2005 exploration program, Alhambra now has five advanced exploration targets ready for diamond drilling in 2006. The 2005 exploration program was also successful in confirming the historical exploration results on a significant number of mineralized targets.

A review of the significant exploration results from five of the targets explored in 2005 is set out below.

Uzboy Gold Deposit

The Uzboy gold deposit comprises the West, East, Central and Northeast zones of mineralization. These zones occur within an area that measures 1,600 m long by 900 m wide. Only the West zone was explored in 2005. The exploration target for this area ranges from 50 to 120 million tonnes with gold grades ranging from 2 to 3 g/t. The drilling on the West zone intersected some impressive mineralized intervals over significant widths. The zone of gold mineralization has been expanded to a strike length of 600 m and occurs over widths that range from 60 to 120 m to a maximum depth of 354 m below surface. Of the 39 diamond drill holes completed in 2005, 31 diamond drill holes intersected significant gold mineralization. The mineralization in the West zone remains open to the northeast, southwest and at depth. Diamond drilling in the West and East zones combined with Reverse Air Blast ("RAB") drilling and trenching of the Central and Northeast zones are priority items planned in 2006.

Dombraly

The Dombraly zone occurs in the Aksu - Balusti mineral trend along the eastern side of the Uzboy Project and was mined for gold in the early 1980's. Diamond drilling to establish the bottom of the oxide zone intersected oxide mineralization to a depth of 100 m and primary gold mineralization to a minimum depth of 240 m below surface. The widths and average grade of the mineralized intercepts in the primary gold mineralization suggest the presence of a significant zone of gold mineralization. The mineralized zone at Dombraly remains open along strike and at depth.

Column leach and bottle roll tests on oxide gold mineralization indicate that 95% of the gold in the samples can be recovered by simple leaching techniques. This suggests that the gold mineralization in the oxide portion of the Dombraly deposit is amenable to heap leach recovery. Hydrogeology, topographic and geotechnical studies were also completed at Dombraly in 2005.

Shirotnaia

The Shirotnaia zone occurs in the Aksu - Balusti mineral trend three km north of the Aksu and Quartzite Hill gold deposits. These deposits are quoted to host combined reserves and resources of 45 million ozs of gold. The geology and structures that host these deposits extend into the Shirotnaia zone. At Shirotnaia, gold mineralization has been defined over an area of 1,600 m long by 250 m wide and is open along strike. Based on its location, size of target and the mineralized intervals from the 2005 trenching program, management believes this zone has the potential to host a multi-million ounce gold deposit. Additional trenching, RAB and diamond drilling are planned for this zone in 2006.

Kirtoge

This target occurs in the Shatskaya mineral trend 15 km northeast of the Uzboy gold deposit. Oxide gold mineralization at Kirtoge has been outlined over an area that is 750 m long and averages 70 m in width. The mineralization is open along strike to the northeast and southwest. Diamond drilling and trenching are planned for this zone in 2006.

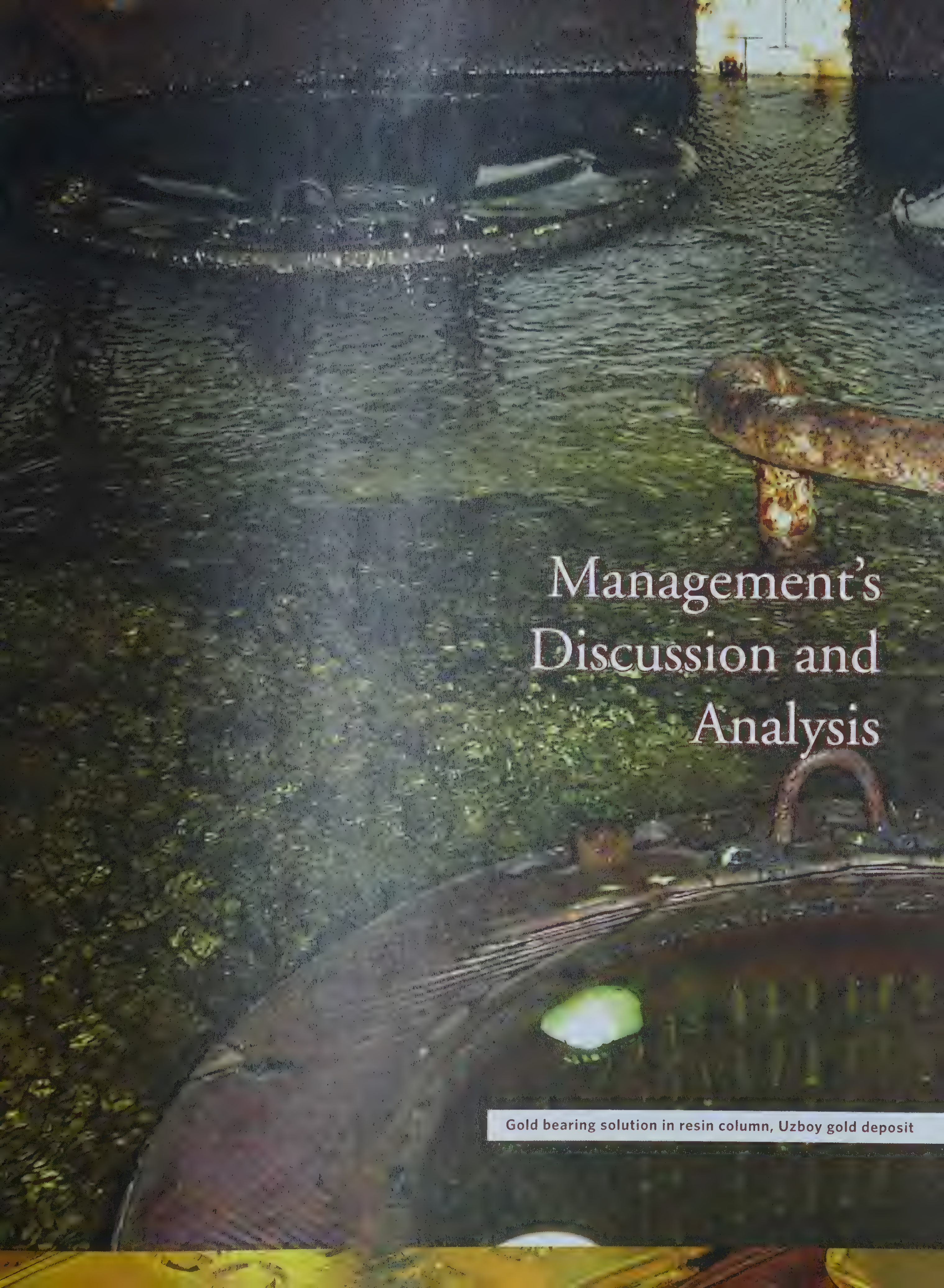
Mamay

The Mamay zone occurs in the Atnsor mineral trend. Trenching in 2005 outlined a significant zone of gold-silver mineralization with minimum dimensions of 800 m long and up to 230 m wide. The mineralized zone is open along strike. Historical drilling is reported to have intersected low-grade zinc-copper mineralization to a depth of 170 m below surface. Exploration in 2006 will consist of limited diamond drilling to test the depth extent of the gold-silver mineralization outlined in 2005 and to confirm the historical exploration results. Based on the dimensions of the zone that outcrops on surface and the seven km strike length of permissive geology and alteration, this zone has the potential to host a significant precious metal deposit.

THE ENVIRONMENT

Protection of the environment is of primary importance to Alhambra. To achieve this, all aspects of our exploration program and leaching operations were performed in compliance with the laws of the Republic of Kazakhstan. Alhambra has established an excellent working relationship with administrative departments at the local and federal levels of government.

Management's Discussion and Analysis



Gold bearing solution in resin column, Uzboy gold deposit

Management's Discussion and Analysis of Financial Condition and Results of Operations

for the Year Ended December 31, 2005

This Management's Discussion and Analysis ("MD&A") focuses on key items from the audited Consolidated Financial Statements for Alhambra Resources Ltd. (also referred to as "Alhambra" or the "Company") for the year ended December 31, 2005 and the factors reasonably expected to impact future operations and results as prepared on April 26, 2005. This discussion should not be considered all-inclusive, as it excludes changes that may occur in general economic, political and environmental conditions. Additionally, other matters may occur which could affect the Company in the future. This discussion should be read in conjunction with the audited Consolidated Financial Statements and the related notes.

This MD&A was reviewed and approved by the Company's audit committee and Board of Directors on April 26, 2006. Additional information on the Company is available under the Company's profile on SEDAR at www.sedar.com.

All dollar amounts are Canadian unless otherwise stated.

FORWARD-LOOKING INFORMATION

Certain statements contained in the following MD&A constitute forward-looking statements. Such forward-looking statements involve a number of known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from actual future results and achievements expressed or implied by such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date the statements were made. Readers are also advised to consider such forward-looking statements while considering the risks set forth below.

NON-GAAP FINANCIAL MEASURES

Funds from operations is defined as loss from continuing operations adjusted for stock-based compensation, depreciation and unrealized foreign exchange gain.

BUSINESS OVERVIEW

The Company was incorporated on January 27, 1993 and amalgamated with its wholly-owned subsidiaries, Signature Capital Corp. and Tarco Oil & Gas Ltd., effective January 1, 2002.

The Company is in the business of exploring and developing mineral properties in the Republic of Kazakhstan ("Kazakhstan"). The Company holds a 100% interest in two exploration licenses totaling approximately 2.7 million acres located in north central Kazakhstan (the "Uzboy Project").

HIGHLIGHTS

On April 7, 2005 the Company sold 100% of its oil and natural gas properties. As a result, Alhambra has presented all of the assets, liabilities, revenues and expenses associated with the operations included in the sale as discontinued operations for financial reporting purposes. Accordingly, the MD&A will be focused on the Company's continuing mining operations. Certain prior year comparative figures have been restated to give meaningful comparisons for the current year's activities.

The Company's capital expenditure program for 2005 totaled $6,039,066. The main component of the 2005 capital expenditure program was the heap leach test conducted on the oxide gold mineralization from the West and East zones of the Uzboy gold deposit. This test consisted of the completion of infrastructure begun in 2004, stacking of material on heap leach pads, as well as conducting the heap leach test. Alhambra began 2005 with 140,000 tonnes of material under leach. Due to prolonged cold winter weather, it was decided to not commence leaching of an additional 140,000 tonnes of material that had been stacked in 2004 until May of 2005. By the end of 2005, the Company had a total of 776,000 tonnes stacked and under leach. As part of the test, approximately 14,800 troy ounces ("ozs") of gold was precipitated on resin, of which 11,467 ozs were sold for gross proceeds of $6.1 million. As the Company is still in the preproduction stage, revenues from gold sales is credited to deferred exploration and development costs until such time that the oxide portion of the Uzboy gold deposit is considered to have commenced commercial production. Management was extremely pleased with the results of the test considering that it was conducted through variable and sometimes difficult weather conditions.

A second component of the 2005 capital program was the construction of a resin stripping plant. To date, the Company has utilized the services of a third party to strip the gold from the resin to produce cathodic sediment. The cathodic sediment is shipped to Europe for refining and sale. Management believes that this critical component of the gold production process must be controlled by the Company and therefore made a decision early in 2005 to build its own plant. It is anticipated that this plant will be commissioned in the last half of 2006.

A third component of the 2005 capital expenditure program consisted of exploration to test the primary gold mineralization that occurs below the oxide portion of the West zone of the Uzboy gold deposit, to further evaluate the exploration results generated in 2004 and to confirm historical exploration results. The exploration model employed by the Company is to locate large zones of disseminated style gold mineralization that would be amenable to open pit mining methods. Five areas within the Uzboy Project were targeted as part of the 2005 exploration program with the initial results confirming the presence of significant zones of gold mineralization.

During 2005, the Company successfully completed several private placements for aggregate cash proceeds of $7,430,950 through the issuance of 13,510,818 units at $0.55 per unit. In addition, warrants issued pursuant to private placements completed in 2004 and 2005 were exercised, resulting in the issue of 1,310,424 common shares for cash proceeds of $879,727.

FINANCIAL REVIEW

Selected Annual Information

Year ended December 31	2005	2004	2003
	($)	($)	($)
Continuing operations			
Loss from continuing operations	**1,256,011**	999,109	1,112,308
Basic and diluted loss per share	**0.03**	0.03	0.05
Deferred exploration and development costs	**17,433,844**	11,411,289	6,097,388
Total assets	**20,132,875**	12,083,942	6,471,001
Total liabilities	**3,302,920**	4,429,223	2,557,811
Discontinued operations			
Gain of discontinued operations	**940,491**	419,849	521,112
Total assets	-	1,308,833	1,216,628
Total liabilities	-	281,893	231,091

Results of Continuing Operations

Revenue

In December 2004, the Company commenced a test heap leach operation on the oxide portion of the West zone of the Uzboy gold deposit to test the equipment and processes constructed and implemented to produce gold. Management believed that it was necessary to test the operation for at least one year to determine the operating parameters through an entire operating cycle and to ensure that a viable operation existed before going into commercial operation. As a result, the Company had no operating revenues from continuing operations in either 2005 or 2004, as it had not commenced commercial mining operations.

Interest expense

Interest for 2005 was $76,553, a decrease of $147,928 over the 2004 amount of $224,481. This decrease was a result of a lower average outstanding debt balance during 2005 as the Company paid down indebtedness from proceeds received from the issuance of common shares. In addition in 2005, interest income of $33,663 (2004 - $nil) earned on funds received from private placements of the Company's common shares was netted against interest expense.

General and administrative expenses

General and administrative expenses for 2005 related to continuing operations decreased to $602,096 from the 2004 amount of $616,658. The decrease is primarily the result of a reduction in consulting fees as a result of the termination of contracts with consultants engaged in investor relations activities.

Stock-based compensation

Due primarily to the high volatility of the Company's stock price, this calculation gives a significant value to stock options which must be expensed during their vesting period. The amount of this expense for 2005 and 2004 was $545,911 and $257,678, respectively. This increase is a result of a larger number of stock options granted in 2005 than in 2004. In addition, a portion of the stock options granted in 2005 vested immediately upon grant, which resulted in the fair value determined being expensed entirely in 2005.

Future income taxes

Alhambra is currently not taxable and has available tax balances to offset future taxable income. Due to the history of operating losses, the Company does not consider it more likely than not that it would be able to realize a future tax benefit relating to its continuing operations and as a result, no future income tax asset was recorded at December 31, 2005.

In 2004 the Company recorded a future tax benefit of $182,810 related to its discontinued operations as it was to be realized in 2005 upon the completion of the sale of the oil and natural gas assets. This amount is included in assets of discontinued operations on the consolidated balance sheet and in net income (loss) from discontinued operations on the consolidated statement of loss and deficit.

Cash flow

Cash utilized in continuing operations was $721,468 in 2005 compared to $855,083 in 2004. The decrease is the result of lower interest expense as a result of the pay down of debt from the proceeds received through private placements and the exercise of warrants as well as lower general and administrative expenses.

Net Loss

The Company incurred a net loss from continuing operations of $1,256,011 for the year ended December 31, 2005, compared to a net loss of $999,109 for the year ended December 31, 2004. The lower cash flow explained above was more than offset by the combined effect of the increase in stock-based compensation and a decrease in unrealized foreign exchange gains, the result of a smaller decline in the comparative value of the US$ in 2005 as compared to 2004

Based on a weighted average number of common shares of 47,015,684 in 2005 and 31,750,980 in 2004, the Company's net loss per common share from continuing operations for the years ended 2005 and 2004 was $0.03 and $0.03 respectively.

LIQUIDITY AND CAPITAL RESOURCES

During 2005, Alhambra raised $7,917,906 (net after common share issuance costs) from the issue of 13,510,818 common shares pursuant to private placement subscription agreements, conversion of warrants into 1,310,424 common shares and the issue of 423,376 common shares upon the exercise of stock and broker options. In addition, the Company received $2,200,000 (prior to adjustments) from the sale of its oil and natural gas properties. This cash has been used to reduce debt obligations, fund capital expenditures and fund general working capital requirements.

At December 31, 2005 the Company had $708,593 of cash on hand and a deficiency in other working capital of $497,118. As of December 31, 2005, the Company also had $874,403 outstanding pursuant to a Gold Sales and Marketing Agreement whereby the Company has a right to receive up to US$750,000 as a pre-payment for gold to be sold to the purchaser. Also outstanding at December 31, 2005 was $792,812 (US$680,000) due under a convertible secured debenture. The convertible debenture was converted on March 30, 2006 into 1,321,353 common shares of the Company.

As a result of the private placements completed in 2005 and 2004, Alhambra had warrants outstanding at December 31, 2005 that are exercisable into 15,584,397 common shares. Subsequent to the yearend, 3,444,560 common shares were issued on the exercise of outstanding warrants, for gross proceeds of $2,377,776. Based on the current trading price of the Company's common shares, it is anticipated that all remaining warrants will be exercised in 2006. With the proceeds expected to be received from the conversion of the warrants as well as the proceeds from the sale of gold, it is not anticipated at this time that the Company will require any additional financing in 2006. The decision on future financings is, of course, dependent upon the results of the 2006 exploration program as well as any other opportunities that may be identified during the year.

RELATED PARTY TRANSACTIONS

During 2005, the Company paid $83,942 (2004 - $76,517) in rent and other expenses to a public company with common officers and directors. Of this amount, $1,086 (2004 - $6,617) remains in accounts payable and accrued liabilities at December 31, 2005. On September 29, 2005, the common officers and directors resigned their positions with the public company.

During 2005, the Company paid $220,000 (2004 - $98,000) in consulting fees to a company controlled by the President and Chief Operating Officer of Alhambra. The 2005 consulting fees included a $100,000 performance bonus. Of this amount, $165,000 (2003 - $71,500) was capitalized to deferred exploration and development costs.

During 2005, certain officers and directors of the Alhambra, pursuant to private placements undertaken by the Company, purchased a total of 1,528,689 common shares for gross proceeds of $840,779.

These transactions are in the normal course of operations and are measured at the exchange amount which is the amount of consideration established and agreed to by the related parties.

FOURTH QUARTER 2005 RESULTS

The Company's focuses for the fourth quarter of 2005 were the heap leach test conducted on the oxide gold mineralization from the West and East zones of the Uzboy gold deposit, exploration on the five areas of the Uzboy Project and construction of the resin stripping plant. A total of 205,000 tonnes of material was stacked on the heap during the quarter and 4,230 ozs of gold was sold for gross proceeds of $2.4 million. Capital costs incurred for these programs for the fourth quarter, before deducting the proceeds, totaled $2.5 million.

Loss from continuing operations for the three months ended December 31, 2005 was $271,312, an increase of $112,051 over the comparable amount of $159,261. Based on a weighted average number of common shares outstanding of 50,155,261, this loss amounted to $0.01 per share. This compares to $0.00 per share in 2004 based on a weighted average number of common shares outstanding of 35,059,719. The increase in the loss for the fourth quarter of 2005 over 2004 was a result of an increase in general and administration expenses plus a reduction in foreign exchange gain offset by lower interest expense.

During the fourth quarter of 2005, 1,302,784 common shares were issued upon exercise of warrants and 72,500 common shares were issued on exercise of stock options for total proceeds of $895,643.

SUBSEQUENT EVENTS

Subsequent to the December 31, 2005, 3,444,560 common shares of the Company were issued upon the conversion of warrants, the proceeds from which totaled $2,377,776. An additional 110,000 warrants expired unexercised.

On March 30, 2006, the convertible debenture was repaid by converting the outstanding balance into 1,321,353 common shares of the Company.

In April 2006, the Company entered into a Mineral Acquisition and Conveyance Agreement whereby the Company purchased 105 mineral claims in south-central British Columbia, Canada. The purchase included the remaining 49% working interest in 55 mineral claims not already owned by the Company (known as the Dot Property) and 100% working interest in 50 mineral claims surrounding the Dot Property. Consideration for the purchase was 225,000 common shares of the Company, each with a deemed value of $2.28 per share, plus $200,000 in cash

The Company has no other proposed transactions other than what is disclosed as part of subsequent events.

FINANCIAL INSTRUMENTS

The fair values of accounts receivable, accounts payable and accrued liabilities and the convertible debenture are approximated by their carrying values because of their short term nature or because they bear interest at market rates.

The Company is exposed to interest rate price risk to the extent that the convertible debenture is at a fixed rate of interest.

The convertible debenture and the Pre-Payment Gold Sales Facility Agreement are denominated in US dollars ("US$") and therefore the Company is subject to the risk of fluctuating exchange rates between the Canadian dollar ("C$") and US$.

OFF BALANCE SHEET ARRANGEMENTS

The Company has no off balance sheet arrangements except the lease agreement on premises as disclosed in note 17(c) to the consolidated financial statements.

DISCLOSURE OF OUTSTANDING SHARE DATA

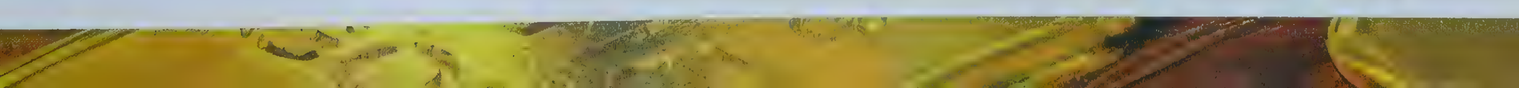
	As of Dec. 31 2005	Changes in 2006	Issued in 2006	As of Apr. 26 2006
Common shares issued and outstanding	50,478,230	-	5,468,413	55,946,643
Common shares issuable upon exercise of vested stock options	3,762,500	(477,500)	337,500	3,622,500
Common shares issuable upon exercise of warrants	15,484,397	(3,444,560)	-	12,039,837
Convertible debenture	1,321,353	(1,321,353)	-	-
Common shares fully diluted	71,046,480	(5,243,413)	5,805,913	71,608,980

At December 31, 2005, there were 71,046,480 fully diluted common shares issued and outstanding. As of April 26, 2006, 3,444,560 common shares were issued pursuant to the exercise of warrants, the convertible debenture in the amount of $792,812 (US$680,000) was converted into 1,321,353 common shares and 477,500 common shares were issued upon the exercise of stock options. In addition, 1,350,000 stock options were granted to employees at an average exercise price of $0.99 per common share and of which 337,500 options vested upon grant. Also in 2006, 225,000 common shares were issued pursuant to a Mineral Acquisition and Conveyance Agreement. (Refer to "Subsequent Events").

DISCLOSURE OF MATERIAL COMPONENTS OF EXPENDITURES

Capitalized and deferred costs for the year ended December 31, 2005 were $6.0 million (2004 - $5.2 million). Deducted from the costs was $6.2 million (2004 - $nil) in proceeds from the sale of gold and silver related to the test heap leach program. The exploration program conducted during 2005 cost $2.1 million, while $2.3 million was spent on the construction of the resin stripping plant which is anticipated to be completed in 2006. The remaining $7.8 million related to development costs associated with, and machinery and equipment required for, the test heap leach program. In 2004, all costs were development costs associated with, and machinery and equipment required for, the test heap leach program.

During 2005, general and administrative expenses from continuing operations were $602,000 (2004 - $617,000). Costs related to the maintenance of Alhambra as a public company including investor relations, stock exchange and corporate trust services costs accounted for 43% ($258,000) in 2005 as compared to 51% ($312,000) in 2004 of total general and administrative expenses. The decrease in public company costs was the result of the Company choosing not to renew contracts with investor relations consultants previously employed in 2004. Office expenses in 2005 of $148,000 (2004 - $132,000) accounted for a further 25% (2004 – 21%) of general and administrative expenses.



REVIEW OF OUTLOOK 2005

During 2005, the Company completed its transition into the mining business with the completion of the sales of all of its oil and natural gas properties. Management and staff are now completely focused on the mining business.

Exploration

In April 2005, the Company began its US$3.5 million exploration program at the Uzboy Project located in north central Kazakhstan. The exploration program concentrated on five areas within its Uzboy Project that covers 2.7 million acres of land. Total exploration expenditures for 2005 were $2.1 million Results to date have been very encouraging and the 2006 program will continue to explore these areas.

The Uzboy gold deposit consists of the West and East zones of gold mineralization and continues to be the primary target for exploration. Nearly 10,000 metres ("m") of diamond drilling were completed on the West zone during 2005 with 31 of the 39 diamond drill holes intersecting significant gold mineralization. The gold mineralization in the West zone has been defined over a strike length of 600 m, over widths ranging from 60 to 120 m and to a depth of 345 m below surface. This zone of mineralization is open in all directions. Due to the encouraging results from the West zone, diamond drilling was not completed on the East zone in 2005.

In 2005 Reverse Air Blast ("RAB") drilling outlined three large areas of anomalous gold mineralization located within a ten kilometre ("km") radius of the Uzboy gold deposit. Nineteen gold anomalies occur within these three areas. The surface dimensions of several of these anomalies are considerably larger than that shown at the Uzboy gold deposit prior to commencement of detailed exploration. Management believes the presence of these anomalies demonstrates the potential of this area to host a significant gold deposit.

The Dombraly gold deposit was a second area of exploration focus for the Company during 2005. This deposit occurs in the Aksu - Balusti mineral trend and was previously mined in the early 1980's. The Company believes it has potential to host a significant gold deposit. Diamond drilling competed in 2005 intersected a significant zone of primary gold mineralization below the oxidized portion of the deposit. The widths and average grade of the mineralized area suggest the presence of a large zone of gold mineralization and the mineralized zone remains open along strike and at depth. Column leach and bottle roll tests on oxide gold mineralization indicate that the gold mineralization from the oxide zone is amenable to heap leaching.

A third target, the Shirotnaia zone occurs in the Aksu - Balusti mineral trend and is located three km north of two known gold deposits that are stated to contain an estimated 45 million ozs of gold in combined resources and reserves. The geology and structures that host these deposits extend into the Shirotnaia zone. The trenching and KGK drilling program conducted in 2005 outlined two significant areas of gold mineralization.

The fourth target, Kirtoge, occurs in the Shatskaya mineral trend 15 km northeast of the Uzboy gold deposit. The 2005 program, consisting of trenching and KGK drilling, outlined oxide gold mineralization over an area 750 m long, averaging 70 m in width with the mineralization open along strike to the northeast and southwest.

The fifth target in 2005, Mamay, occurs in the Atnsor mineral trend. A trenching program has outlined a zone of gold-silver mineralization that is 800 m long, 230 m wide and is open along strike.

Due to the significant exploration success on the West zone of the Uzboy gold deposit, the exploration planned for the Stepnyak area was postponed in order to explore the area around the Uzboy gold deposit.

Operations

The test heap leach program initiated in 2005 recovered approximately 14,800 ozs of gold of which 11,467 ozs were sold in the year for gross proceeds of $6.1 million. While cold winter weather slowed the Company's progress, by year end a total of 776,000 tonnes of material had been stacked on the pads and was under leach. This represents approximately 65% of the capacity of the leaching plant. With these results, the Company expects to reach commercial production during 2006.

Pursuant to the laws of Kazakhstan, the Uzboy Project is considered to be in the semi-industrial test phase of exploration. The results of this test heap leach conducted in 2005 together with resource estimates prepared pursuant to Kazakhstani requirements have been submitted to the State Committee for Geology ("GKZ") as required and the Company is waiting on the results of their review.

OUTLOOK FOR 2006

In 2006, the Company will continue to build on the successes of 2005. The proceeds of the financings completed in 2004 and 2005 combined with the exercise of warrants and the sale of gold during 2006 are expected to provide the Company with sufficient funds to continue to develop the potential of the Uzboy gold deposit and to explore a significant number of the 125 mineral targets that occur within the Uzboy Project.

Exploration

The Company is planning a US$3.0 million exploration program for the Uzboy Project in 2006. The main emphasis will be diamond drilling to follow up the positive drill results from the 2005 program completed on the West zone of the Uzboy gold deposit. The gold mineralization in the East zone of the Uzboy gold deposit has not been drill tested. The diamond drilling program is designed to test the strike and depth extensions with the objective to expand the dimensions of the primary gold mineralization in each zone. Metallurgical test work on the primary gold mineralization is also planned in 2006.

In 2006, trenching, RAB, KGK and limited diamond drilling are planned for the Uzboy gold deposit, Shirotnaia, Mamay, Dombraly and Kirtoge zones. Preliminary exploration consisting of prospecting, re-sampling of old trenches and soil geochemical surveys are planned for 20 other mineral targets within the Uzboy Project.

Operations

Operational plans for 2006 include increasing leaching operations to fully utilize the gold recovery plant's design capacity of 1,200,000 tonnes per year with expectations of gold sales doubling over 2005. The completion of the resin stripping plant will give the Company added security over its production process and the expectation of operational efficiencies. The Company also anticipates that it will achieve commercial production during 2006.

BUSINESS RISKS

Exploration and Development

The mining industry in general is inherently risky in nature. Mineral properties are often non-productive for reasons that cannot be anticipated in advance and the Company may be subject to risks from operations, mining law, environmental regulations, permits and licenses and financing.

The Company focuses exploration efforts in areas in which it has existing knowledge and expertise. Exploration activities rely on the exploration results collected at that time and on the professional judgment of people involved in the exploration business. There can be no assurance that exploration programs will result in a discovery being made. In the event that a discovery is made, no assurance can be given that the discovery will result in either resources or reserves being established on the property. If reserves are developed, it may take a number of years and substantial expenditures until production is achieved, during which the economic feasibility of the project may change.

The long-term profitability of the Company's operations will, in part, be directly related to the success of its exploration programs to find additional reserves, which may be affected by a number of factors that are beyond the control of the Company.

Operations Risk

Operations risk relates to the ability to recover metal from an established mineral reserve. Using skilled and experienced professional staff reduces this risk. Using the latest technologies and controlling costs to maximize profitability also assists in minimization of this risk. Other possible risks include changes in metal prices, unstable ground conditions, procurement of reagents, supplies and fuels and qualified operating personnel as well as severe weather conditions. Currently, the Company maintains insurance as mandated under Kazakhstan law. Management reviews this insurance on a regular basis to ensure it is adequate for business purposes.

Country Risk

Alhambra's operations are subject to economic, political and social risks inherent in doing business in Kazakhstan. These risks include matters arising out of the policies of the government, economic conditions, imposition of or changes to taxes and regulations, foreign exchange fluctuations and the enforceability of contract rights.

Regulations and Mining Law

Alhambra's mining operations and exploration activities are subject to the laws and regulations of Kazakhstan. There is no assurance that these laws will not change in the future.

Environmental Factors

All phases of the Company's operations are subject to environmental regulation in Kazakhstan. Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects, and a heightened degree of responsibility for companies and their officers, directors and employees. Although Alhambra takes the steps necessary to protect the environment around its operations, there is no assurance that future changes in environmental regulation, if any, will not adversely affect Alhambra's operations or result in substantial costs and liabilities in the future.

Permits and Licenses

The operations of the Company require permits from the government of Kazakhstan. The Company has secured the necessary permits for its current exploration and test heap leaching programs. There can be no assurance that the Company will be able to obtain all necessary permits that may be required to carry out its operations in the future.

Financing Risks

Continued exploration and development of the Uzboy Project is dependent on Alhambra's ability to obtain the funds necessary to finance these planned activities. Currently the anticipated revenue from the sale of gold recovered plus the exercise of warrants are expected to give the Company the funds required to carry out its planned programs during 2006. There is no assurance however that sufficient quantities of gold will be recovered nor that sufficient warrants will be exercised to ensure adequate funds will be available to undertake the planned programs. Failure to do so may result in the Company seeking additional equity programs to finance its programs. While the Company has been successful in attracting equity financing in the past, there can be no assurance that additional funding will be available in the future. Failure to obtain such additional financing could result in delay or indefinite postponement of further exploration plans.

Summary of quarterly results ($)

2005	March	June	September	December
Loss from continuing operations	(253,415)	(521,384)	(209,900)	(271,312)
Basic and diluted loss per share - continuing operations	(0.01)	(0.01)	(0.00)	(0.01)
Net income (loss) for the year	(133,995)	453,521	(209,900)	(425,146)
Basic and diluted income (loss) per share	(0.00)	0.01	(0.00)	(0.02)
Diluted loss per share	N/A	0.01	N/A	N/A

2004	March	June	September	December
Loss for the year - continuing operations	(289,408)	(365,797)	(184,644)	(159,260)
Basic and diluted loss per share - continuing operations	(0.01)	(0.01)	(0.01)	(0.00)
Net Loss for the year	(227,165)	(298,406)	(104,451)	50,762
Basic and diluted loss per share	(0.01)	(0.01)	(0.00)	0.00

Financial Statements

Gold laden resin ready for stripping

Management's Report

The accompanying consolidated financial statements and all information in the annual report are the responsibility of management.

The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. Other financial information appearing throughout the report is presented on a basis consistent with the financial statements.

Alhambra Resources Ltd. has established procedures and systems of internal control designated to provide reasonable assurance that assets are safeguarded and that reliable financial information is produced in a timely manner.

The Audit Committee of the Board of Directors has reviewed these financial statements with management and the external auditors. The Audit Committee reviews the financial statements with both management and the independent auditors and reports its findings to the Board of Directors before such statements are approved by the Board.

The financial statements have been audited by KPMG LLP, the independent auditors, in accordance with the generally accepted auditing standards on behalf of the shareholders. KPMG LLP have full and free access to the Audit Committee.

John J. Komarnicki
Chairman of the Board
and Chief Executive Officer

Donald D. McKechnie
Vice-President Finance and
Financial Officer

Auditors' Report

To the Shareholders
Alhambra Resources Ltd.

We have audited the consolidated balance sheet of Alhambra Resources Ltd. as at December 31, 2005 and the consolidated statements of loss and deficit and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The consolidated financial statements as at December 31, 2004 and for the year then ended were audited by other auditors who expressed an opinion without reservation on those statements in their report dated April 13, 2005.

Chartered Accountants

KPMG LLP

Calgary, Canada
April 26, 2006

Consolidated Balance Sheets

As at December 31, 2005 and 2004

	2005	2004
ASSETS		
Current assets:		
Cash	$ 708,593	$ 82,488
Accounts receivable	1,517,483	490,902
Deposits and prepaid expenses	434,079	69,589
Assets of discontinued operations (note 3)	–	1,308,833
	2,660,155	1,951,812
Deferred exploration and development costs (note 4)	17,433,844	11,411,289
Property and equipment (note 5)	38,876	29,674
	$20,132,875	$13,392,775
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$ 1,574,277	$ 1,087,160
Advances (note 17(b))	874,403	755,515
Due to officers and directors (note 6)	–	540,000
Convertible promissory notes (note 8)	–	550,250
Liabilities of discontinued operations (note 3)	–	281,893
	2,448,680	3,214,818
Convertible debenture (note 7)	792,812	1,418,360
Asset retirement obligations (note 9)	61,428	77,938
Shareholders' equity:		
Share capital (note 11)	15,590,718	9,154,286
Warrants (note 11(c))	2,660,523	1,119,482
Contributed surplus (note 11(d))	1,013,636	527,292
Deficit	(2,434,921)	(2,119,401)
	16,829,956	8,681,659
Nature of operations and basis of presentation (note 1)		
Subsequent events (notes 7 and 18)		
Commitments (note 17)		
Segment information (note 19)		
	$20,132,875	$13,392,775

See accompanying notes to consolidated financial statements.

Approved by the Board:

John J. Komarnicki
Director

Elmer B. Stewart
Director

Consolidated Statements of Loss and Deficit

Years ended December 31, 2005 and 2004

	2005	2004
EXPENSES		
General and administrative	$ 602,096	$ 616,658
Interest	76,553	224,481
Stock based compensation (note 11(d))	545,911	257,678
Depreciation	13,180	9,670
Foreign exchange loss (gain)	18,271	(109,378)
Loss from continuing operations	(1,256,011)	(999,109)
Gain on discontinued operations (note 3)	940,491	419,849
Net loss	(315,520)	(579,260)
Deficit, beginning of year	(2,119,401)	(1,540,141)
Deficit, end of year	$ (2,434,921)	$ (2,119,401)
Per share (note 14):		
Loss from continuing operations per share – basic and diluted	$ (0.03)	$ (0.03)
Gain on discontinued operations per share – basic and diluted	0.02	0.01
Net loss per share basic and diluted	(0.01)	(0.02)

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Years ended December 31, 2005 and 2004

	2005	2004
OPERATING		
Cash provided by (used in):		
Loss from continuing operations	$ (1,256,011)	$ (999,109)
Items not involving cash:		
Stock based compensation	545,911	257,678
Depreciation	13,180	9,670
Unrealized foreign exchange gain	(24,548)	(123,322)
	(721,468)	(855,083)
Change in non-cash working capital (note 13)	(68,438)	(24,016)
Discontinued operations	(222,802)	616,312
	(1,012,708)	(262,787)
FINANCING		
Advances from (repayments to) officers and directors	(540,000)	500,000
Repayment of convertible debenture	(601,000)	-
Repayment of convertible promissory notes	(550,250)	-
Issuance of shares and warrants	8,459,865	4,369,820
Share issuance costs	(541,959)	(265,306)
	6,226,656	4,604,514
INVESTING		
Expenditures on mineral properties, equipment and deferred exploration and development costs	(6,039,066)	(5,235,963)
Other assets recovered	-	190,994
Acquisition of property and equipment, net	(22,382)	(9,972)
Change in non cash working capital (note 13)	(716,628)	1,003,585
Discontinued operations	2,190,233	(237,865)
	(4,587,843)	(4,289,221)
Change in cash	626,105	52,506
Cash, beginning of year	82,488	29,982
Cash, end of year	$ 708,593	$ 82,488
Supplemental disclosure of cash flow information:		
Interest paid	$ 279,557	$ 170,901

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Years ended December 31, 2005 and 2004

1 — NATURE OF OPERATIONS AND BASIS OF PRESENTATION

(a) Nature of operations

The Company's business consists of the exploration for and development of mineral properties in the Republic of Kazakhstan ("Kazakhstan"). On April 7, 2005 the Company entered into an agreement to sell 100% of its oil and natural gas properties thus allowing management to focus all of its attention on the mineral exploration and development business. Prior to this, these properties generated cash flow to fund corporate overhead. The sale proceeds of $2,200,000 were used to fund the continued development of the Company's Uzboy Project located in north central Kazakhstan and to fund liabilities.

The Company's operations are subject to economic, political and social risks inherent in doing business in Kazakhstan. These risks include matters arising out of the policies of the government, economic conditions, imposition of or changes to taxes and regulations, foreign exchange fluctuations and the enforceability of contract rights.

(b) Basis of presentation

Due to Alhambra's continued net losses and limited working capital, its ability to continue with its business plan is dependent upon its ability to raise additional capital to fund these activities and on achieving positive earnings and cash flow. Management believes the equity capital raised (note 11) and the sale of the oil and natural gas assets in 2005 (note 3) have increased Alhambra's ability to carry out its business plan and to continue as a going concern.

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles applicable to a "going concern", which assume that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations.

If the going concern assumption was not appropriate for these financial statements, then material adjustments would be necessary to the carrying values of the assets and liabilities, the reported revenues and expenses and the balance sheet classifications used.

2 — SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Alhambra Overseas Limited, Saga Creek Gold Company LLP ("Saga LLP") and GoodwinGolems LLP ("Goodwin").

(b) Use of estimates

The preparation of the consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those reported.

Significant areas requiring the use of management estimates include estimates related to the determination of impairment of mineral properties, equipment and deferred exploration and development costs, asset retirement obligations and determination of the assumptions used in calculating stock-based compensation expense. These estimates are reviewed periodically and, as adjustments become necessary, they are reported in earnings in the periods in which they become known.

(c) Oil and natural gas properties

The Company follows the full cost method of accounting whereby all costs relating to the exploration for and the development of oil and natural gas reserves is initially capitalized. Costs capitalized include land acquisition costs, geological and geophysical expenditures, rentals on undeveloped properties, costs of drilling productive and non productive wells, together with overhead and interest directly related to exploration and development activities, and lease and well equipment. Gains or losses are not recognized upon disposition of oil and natural gas properties unless such a disposition would alter the rate of depletion and depreciation in excess of 20%.

Costs capitalized are depleted and depreciated using the unit of production method based on estimated gross proved oil and natural gas reserves as determined by independent engineers. For purposes of the calculation, production and reserves of natural gas are converted to equivalent barrels of oil based on their relative energy content where one barrel of oil or liquids equals six thousand cubic feet of natural gas.

The cost of undeveloped land is excluded from the depletion and depreciation base until it is determined whether proved reserves are attributable to the properties, or impairment has occurred.

In applying the full cost method, the Company performs a ceiling test whereby the carrying value of petroleum and natural gas properties is compared to the sum of undiscounted future cash flows expected to result from proved reserves and the lower of cost and market of unproved properties. Cash flows are based on third party quoted forward prices, adjusted for transportation and quality differentials. Should the ceiling test result in an excess of carrying value, the Company would then measure the amount of impairment by comparing the carrying amounts of petroleum and natural gas properties to an amount equal to the estimated net present value of future cash flows from proved plus probable reserves and the lower of cost and market of unproved properties. A risk free interest rate would be used to arrive at the net present value of future cash flows. The carrying value of petroleum and natural gas properties in excess of the future cash flows would be recorded as a permanent impairment.

The amounts recorded for depletion and depreciation of oil and natural gas properties, the provision for future site restoration costs and the ceiling test are based on estimated proved reserves, production rates, future oil and natural gas prices and future costs. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements from changes in such estimates in future periods could be significant.

(d) Asset retirement obligations ("ARO")

The Company recognizes the fair value of ARO in the period in which it is incurred when a reasonable estimate of the fair value can be made. The fair value of the estimated ARO is recorded as a liability, with a corresponding increase in the carrying amount of the related asset. The capitalized amount is depleted on the unit-of-production method over the expected economic life of each mine. The liability amount is increased each reporting period due to the passage of time and the amount of accretion is expensed to income in the period. Actual costs incurred upon the settlement of the ARO are charged against the ARO.

(e) Deferred exploration and development costs

The amount shown for deferred mineral properties, equipment and deferred exploration and development costs includes the direct costs of acquiring, maintaining, exploring and developing properties, the costs of acquiring directly related equipment, an allocation of management fees and salaries based on time spent and other costs directly related to specific properties. Depreciation on equipment utilized in the development of mineral properties is capitalized to mineral properties until such time these properties commence commercial production. All other costs, including administrative overhead, are expensed as incurred. Revenues from the sale of minerals are credited to mineral properties, equipment and deferred exploration and development costs until such time these properties are considered to have commenced commercial production.

Management periodically reviews the carrying values of deferred exploration and development costs with internal and external mining professionals. A decision to abandon, reduce or expand activity on a specific project is based upon many factors including general and specific assessments of exploration results, anticipated future mineral prices, anticipated costs of developing and operating a producing mine and the general likelihood that the Company will continue exploration on the project. The Company does not set a pre determined holding period for properties. However, properties which have not demonstrated positive exploration results at the conclusion of each phase of an exploration program are re evaluated to determine if future exploration is warranted and that carrying values are appropriate.

If a mineral property is abandoned or it is determined that its carrying value cannot be supported by future production or sales, the related costs are charged against operations in the year of abandonment or determination of impairment of value. The amounts recorded as deferred exploration and development costs represent unamortized costs to date and do not necessarily reflect present or future values.

Once commercial production begins, the accumulated costs of mineral properties will be amortized to operations on a unit of production basis over economically recoverable reserves. Mining and processing equipment will be depreciated on a straight line basis over the useful life of the related equipment.

(f) Inventory

Inventory of materials and supplies is valued at the lower of cost and net realizable value.

(g) Depreciation

Office equipment is depreciated using the declining balance method at an annual rate of 20%.

Leasehold improvements are amortized on a straight line basis over five years.

(h) Oil and gas revenue recognition

Revenue from the sale of oil and natural gas is recognized based on volumes delivered to customers at contractual delivery points and rates. The costs associated with the delivery, including operating and maintenance costs, transportation, and production based royalty expenses are recognized in the same period in which the related revenue is earned and recorded.

(i) Income taxes

The Company uses the asset and liability method of accounting for income taxes. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases.

Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment. A valuation allowance is recorded against any future income tax assets if it is more likely than not that the asset will not be realized.

(j) Joint venture accounting

Substantially all of the Company's exploration and development of oil and natural gas activities are conducted jointly with others and, accordingly, these consolidated financial statements reflect only the Company's proportionate interest in such activities.

(k) Translation of foreign currencies

Monetary assets and liabilities in foreign currencies are translated into Canadian dollars at the rate of exchange in effect at the balance sheet date. Non-monetary assets and liabilities are translated into Canadian dollars at the historical rates in effect when the assets were acquired or liabilities incurred. Revenues and expenses, except depletion, depreciation, and amortization, are translated into Canadian dollars at the average exchange rate for the period. Depletion, depreciation, and amortization is translated into Canadian dollars at the same rates as the related assets. Exchange gains and losses arising on translation are included in earnings. The Company's foreign subsidiaries are integrated and translated using the temporal method as described above.

(l) Stock based compensation

The Company has a stock-based compensation plan as described in note 11(d). The Company uses the fair value method of accounting for stock options granted. At the date of grant, the fair value of the stock options is estimated. This fair value is amortized over the vesting period of the option. In determining the fair value of the stock options granted, the Black-Scholes model is used and assumptions regarding interest rates, underlying volatility of the Company's stock and expected life of the options are made.

(m) Loss per share

Basic per share amounts are calculated using the weighted average common shares outstanding during the year. Diluted loss per share is calculated using the treasury stock method, whereby it is assumed that proceeds from the exercise of stock options and warrants are used by the Company to repurchase Company shares at the weighted average market price during the year. Anti-dilutive options and warrants are not included in the calculation.

3 — DISCONTINUED OPERATIONS

In 2004, the Company evaluated its oil and natural gas operations in Canada and decided to pursue the sale of these assets. The assets for sale comprise 100% of the Company's oil and natural gas assets in Canada. These assets were classified as assets held for sale as at December 31, 2004, and are reflected as discontinued operations in 2005 and 2004.

On April 7, 2005, the Company sold the asset for gross proceeds of $2.2 million prior to working capital adjustments and transaction costs.

Selected financial information for the activities included in discontinued operations is presented below:

	2005	2004
Oil and natural gas sales, net of royalties	$ 169,939	$ 592,683
Net income (loss) from discontinued operations	$ (62,531)	$ 419,849
Gain on disposal of discontinued operations	1,003,022	-
Gain on discontinued operations	$ 940,491	$ 419,849

The major classes of assets and liabilities of discontinued operations are as follows:

	2005	2004
Accounts receivable	$ -	$ 87,830
Property and equipment	-	1,038,193
Future income tax asset	-	182,810
	-	1,308,833
Accounts payable and accrued liabilities	-	183,634
Asset retirement obligation on oil and gas assets	-	98,259
	-	281,893
Net assets of discontinued operations	$ -	$ 1,026,940

4 — DEFERRED EXPLORATION AND DEVELOPMENT COSTS

Deferred exploration and development costs consist of the following:

	2005	2004
Deferred exploration and development costs, net of gross revenue from sales of gold and silver of $6,158,334 (2004 - $nil)	$11,582,318	$ 8,523,490
Equipment, net of accumulated depreciation of $366,101 (2004 - $131,770)	2,854,432	2,378,376
Construction in progress	2,304,951	98,941
Inventory	692,143	410,482
	$17,433,844	$11,411,289

During the years ended December 31, 2005 and 2004, all expenditures relating to the Uzboy Project were capitalized. These expenditures consisted of pre-production costs, property and equipment and construction in progress costs, general and administration costs and interest on the Pre-payment Gold Sales Facility Agreement (note 17(b)). Pre-production costs are expenditures that related to geological exploration, pre-production activities, and directly attributable overhead expenditures. In December 2004 the Company started a test heap leach operation at the Uzboy Project to test the equipment and processes built and established to produce gold.

Management believed that it was necessary to test the operation for at least an entire operating cycle to ensure that a viable operation existed before going into commercial operation. During 2005, gross proceeds of $6,158,334 was recognized as part of the test heap leach operation and was recorded as a reduction of deferred exploration and development costs.

5 — PROPERTY AND EQUIPMENT

2005	Cost	Accumulated depreciation	Net book value
Leasehold improvements	$ 27,177	$ 19,138	$ 8,039
Office equipment	51,036	20,199	30,837
	$ 78,213	$ 39,337	$ 38,876
2004			
Leasehold improvements	$ 27,177	$ 13,698	$ 13,479
Office equipment	28,654	12,459	16,195
	$ 55,831	$ 26,157	$ 29,674

6 — DUE TO OFFICERS AND DIRECTORS

At December 31, 2004, the amount due to officers and directors represents advances to the Company bearing interest at 10% and had no fixed terms of repayment. These advances were repaid during 2005.

7 — CONVERTIBLE DEBENTURE

The principal amount of the debenture is convertible at any time, in whole or in part, at the option of the holder into common shares at C$0.60 (the "Conversion Price") based on the exchange rate in effect at the time of conversion (US$0.86 and US$0.82 at December 31, 2005 and 2004, respectively). The debenture can be converted at the option of the Company if the common shares of the Company trade over a ten-day consecutive period at a closing price equal to or greater than C$1.20 per common share. Interest at the rate of 10% on the debenture is compounded semi annually and is payable on a quarterly basis. The debenture is secured by the assets of the Company.

During 2005, a payment of US$500,000 (C$625,548) was made reducing the outstanding balance to C$792,812 (US$680,000) at December 31, 2005. On March 30, 2006, the convertible debenture of C$792,812 was settled through the issuance of 1,321,353 common shares of the Company.

8 — CONVERTIBLE PROMISSORY NOTES

The convertible promissory notes consisted of C$400,000 ("C$ notes") and US$125,000 ("US$ notes"), 10% unsecured convertible subordinated promissory notes due June 30, 2005. The C$ notes were convertible at any time, in whole or in part, at the option of the holder into common shares at C$0.60. The US$ notes were convertible

at any time, in whole or in part, at the option of the holder into common shares at a rate of 11,459 common shares for each US$5,000 of principal amount converted. The C$ notes and US$ notes were convertible at the option of the Company if the common shares of the Company traded over a ten day consecutive period at a closing price equal to or greater than C$0.90 per common share. Interest on the C$ notes and US$ notes was payable on a quarterly basis. The holders of the C$ notes were directors of the Company. The C$ notes and the US$ notes were repaid in full in 2005.

9 — ASSET RETIREMENT OBLIGATIONS

Mineral Properties

The following table presents the reconciliation of the asset retirement obligations associated with the retirement of the Uzboy Project in Kazakhstan.

	2005	2004
Balance, beginning of year	$ 77,938	$ -
Revisions	(16,510)	70,853
Accretion	-	7,085
Balance, end of year	$ 61,428	$ 77,938

The Company estimates the total undiscounted cash flows required to settle its asset retirement delegations at December 31, 2005 is approximately $438,000, and estimated to be incurred between the years 2020 to 2022. A credit adjusted risk free rate of 14% and an inflation rate of 7% was used to calculate the fair value of the asset retirement obligation.

10 — INCOME TAXES

(a) Significant components of future income tax assets and liabilities at December 31, 2005 and 2004 are as follows:

	2005	2004
Future income tax assets:		
Property and equipment	$ 3,969	$ 7,236
Eligible capital expenditures	12,175	7,839
Non-capital losses	111,795	13,948
Share issue costs	250,894	156,371
Future income tax liabilities:		
Non-deductible foreign exchange losses	(16,705)	(20,885)
Valuation allowance	(362,128)	(164,509)
Future income tax asset	$ -	$ -

Due to the history of operating losses, the Company did not consider it more likely than not that it would be able to realize a future tax benefit on continuing operations and as a result, no future income tax asset was recorded at December 31, 2005 and 2004. A future income tax asset of $182,810 from discontinued operations was recorded at December 31, 2004 and was realized in 2005 upon completion of the sale of the oil and gas assets.

(b) Future income tax recovery differs from that which would be expected from applying the combined effective Canadian federal and provincial income tax rates of 37.62% (2004 - 33.87%) to loss before income taxes as follows:

	2005	2004
Expected income tax recovery	$ (472,511)	$ (338,398)
Difference resulting from:		
Stock based compensation costs	205,372	87,276
Non-deductible foreign exchange gain (loss)	3,437	(20,885)
Tax rate reductions	9,982	(3,535)
Other	(5,360)	4,493
Change in valuation allowance	259,080	271,049
	$ -	$ -

The Company has Canadian non capital losses, for which no benefit has been recognized in the financial statements, of approximately $290,000 which commence expiring in 2009.

11 — SHARE CAPITAL

(a) Authorized

Unlimited voting common shares

Unlimited non voting preferred shares, of which none have been issued

(b) Issued

	2005		2004	
	Number	Amount	Number	Amount
Common shares				
Balance, beginning of year	35,233,612	$ 9,154,286	26,369,472	$ 6,156,523
Pursuant to private placements	13,510,818	7,430,950	8,654,140	4,317,070
Amount ascribed to warrants	-	(1,502,753)	-	(1,119,482)
Exercise of stock options	265,000	103,000	210,000	52,750
Exercise of warrants (note 11(c))	1,310,424	879,727	-	-
Transfer to common shares upon exercise of warrants	-	266,385	-	-
Exercise of brokers options	158,376	79,188	-	-
Transfer from contributed surplus	-	59,567	-	12,731
Share issuance costs	-	(879,632)	-	(265,306)
Balance, end of year	50,478,230	$ 15,590,718	35,233,612	$ 9,154,286

(i) Pursuant to a brokered private placement in 2005, the Company completed an initial issue of 10,920,000 units on February 25, 2005 for cash proceeds of $6,006,000 and an additional 349,000 units on March 4, 2005 for cash proceeds of $191,950 at a price of $0.55 per unit. Each unit is comprised of one common share and one-half common share purchase warrant. Each full common share purchase warrant entitles the holder to purchase one common share of the Company at $0.75 per share until August 24, 2006 on the initial units and September 4, 2006 on the additional units.

The Company paid a commission of 7% of gross proceeds raised and issued agent's warrants to purchase 1,092,000 common shares of the Company at a price of $0.60 per share expiring August 24, 2006 on the initial units and 34,900 warrants at a price of $0.60 expiring September 4, 2006 on the additional units, as a commission for the financing. In addition, the Company paid the agent a corporate finance fee of 60,000 units exercisable on the same terms and conditions as those provided in the Brokered Private Placement. Share issue costs on the Private Placement amounted to $879,632 which has been recorded as share issuance costs.

(ii) In conjunction with the brokered private placement in 2005, the Company issued 2,181,818 units at a price of $0.55 per unit for cash proceeds of $1,200,000 by way of a non-brokered private placement. The warrants expire on September 4, 2006 with the same terms and conditions as the brokered private placement except that the sale of the non-brokered units was not subject to any commissions, agent's warrants, or fees.

(iii) During the year ended December 31, 2005, a total of 265,000 (2004 – 210,000) stock options were exercised for total proceeds of $103,000 (2004 - $52,750). In addition, a total of $59,567 (2004 - $12,731) was transferred from contributed surplus to reflect the value of the options calculated on the grant date and charged as stock-based compensation expense.

(iv) During the year ended December 31, 2004, Alhambra received subscription agreements along with payment pursuant to a private placement of 8,654,140 units at $0.50 per unit for total cash proceeds of $4,317,070. Each unit consisted of one common share and one common share purchase warrant. Each common share purchase warrant entitles the holder to purchase one additional common share at an exercise price of $0.70 per share expiring between January 9, 2006 and June 14, 2006. On 1,622,160 units sold for a cash consideration of $811,080, the Company paid broker fees equal to 10% of the gross proceeds raised from the issue and further issued broker options to purchase 10% of the units sold under the private placement at an exercise price of $0.50 per unit, exercisable on or before September 8, 2005. On 1,514,000 units sold for a cash consideration of $757,000, the Company paid cash brokerage fees of 10% of the gross proceeds.

(v) During the year ended December 31, 2005, a total of 158,376 brokers options granted in conjunction with a private placement completed in 2004 were exercised for total proceeds of $79,188. For each option exercised, the holder received one unit consisting of one common share of the Corporation plus a warrant to purchase an additional common share at a price of $0.70 per common share any time up to March 8, 2006. Options to purchase 3,840 units expired unexercised.

(c) Warrants

	2005		2004	
	Number	Amount	Number	Amount
Balance, beginning of year	11,867,567	$ 1,119,482	4,313,427	$ -
Pursuant to private placements	8,040,681	1,807,426	8,754,140	1,119,482
Exercise of warrants	(1,310,424)	(266,385)	-	-
Expired	(3,113,427)	-	(1,200,000)	-
Balance, end of year	15,484,397	$ 2,660,523	11,867,567	$ 1,119,482

Subsequent to December 31, 2005, 3,444,560 common shares of the Company were issued upon the exercise of warrants, for total proceeds of $2,377,776.

The fair value of the warrants granted in conjunction with the private placements is estimated on the date of the issue of the common shares and warrants using the Black-Scholes option-pricing model. The fair value of the warrants was calculated to be $1,807,426 (2004 - $1,119,482) using the following weighted-average assumptions:

	2005	2004
Expected dividend yield (%)	-	-
Expected life (years)	1.49	2.00
Risk free interest rate (%)	2.96	3.21
Expected volatility (%)	75	75
Fair value of options granted ($/share)	0.22	0.13

	2005		2004	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
Outstanding, beginning of year	11,867,567	$ 0.67	4,313,427	$ 0.64
Issued	8,040,681	0.75	8,754,140	0.70
Exercised	(1,310,424)	0.67	-	-
Expired	(3,113,427)	0.60	(1,200,000)	0.75
Outstanding, end of year	15,484,397	$ 0.72	11,867,567	$ 0.67
Exercisable, end of year	15,484,397	$ 0.72	11,867,567	$ 0.67

(d) Options

The Company has a stock option plan under which directors, officers, employees and consultants of the Company are eligible to receive stock options. The aggregate number of common shares to be issued upon the exercise of all options granted under the plan shall not exceed 10% of the issued common shares of the Company at the time of granting of the options. Options granted under the plan generally have a term of three years but may not exceed five years and vest at terms to be determined by the directors at the time of grant. The exercise price of each option shall be determined by the directors at the time of grant but shall not be less than the price permitted by the policies of the stock exchange(s) on which the Company's common shares are then listed.

A summary of the status of the Company's stock option plan as at December 31, 2005 and 2004 and changes during the years then ended are as follows:

	2005		2004	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
Outstanding, beginning of year	**3,045,000**	**$ 0.42**	2,135,000	$ 0.43
Granted	**1,520,000**	**0.55**	1,345,000	0.42
Cancelled	**(62,500)**	**0.42**	(225,000)	0.50
Exercised	**(265,000)**	**0.39**	(210,000)	0.25
Outstanding, end of year	**4,237,500**	**$ 0.47**	3,045,000	$ 0.42
Exercisable, end of year	**3,762,500**	**$ 0.47**	2,020,000	$ 0.42

The following table summarizes information about stock options outstanding and exercisable at December 31, 2005.

	Outstanding		Exercisable	
Exercise price	Number	Weighted average remaining contractual life (years)	Number	Weighted average remaining contractual life (years)
$0.30	290,000	1.16	290,000	1.16
0.40	1,087,500	1.35	1,087,500	1.35
0.45	410,000	1.32	285,000	1.32
0.50	420,000	0.72	420,000	0.72
0.52	500,000	1.38	500,000	1.38
0.55	1,480,000	3.43	1,130,000	3.43
0.57	50,000	0.83	50,000	0.83
	4,237,500	1.99	3,762,500	1.99

The fair value of the options granted is estimated on the date of grant using the Black Scholes option pricing model. The fair value of the options was calculated to be $547,143 (2004 - $231,486) using the following weighted average assumptions:

	2005	2004
Expected dividend yield (%)	-	-
Expected life (years)	4.10	3.00
Risk free interest rate (%)	3.37	3.91
Expected volatility (%)	75	75
Fair value of options granted ($/share)	0.31	0.21

A reconciliation of contributed surplus is provided below:

	2005	2004
Balance, beginning of year	$ 527,292	$ 282,345
Stock-based compensation expense	545,911	257,678
Transfer to share capital on the exercise of stock options	(59,567)	(12,731)
Balance, end of year	$ 1,013,636	$ 527,292

12 — RELATED PARTY TRANSACTIONS

(a) During the year, the Company paid $83,942 (2004 - $76,517) in rent and other expenses to a company with common officers and directors. Of this amount, $1,086 (2004 - $6,617) remains in accounts payable and accrued liabilities at December 31, 2005. The common officers and directors resigned their positions with the company on September 29, 2005.

(b) During the year, the Company paid $220,000 (2004 - $98,000) in consulting fees to a company controlled by the President and Chief Operating Officer of Alhambra. Of this amount, $165,000 (2004 - $71,500) was capitalized to deferred exploration and development costs.

(c) During the year, officers and directors of the Company participated in private placements as described in note 11 to the extent of 1,528,689 shares for gross proceeds of $840,779 (2004 - 4,004,000 shares for gross proceeds of $2,002,000).

These transactions are in the normal course of operations and are measured at the exchange amount which is the amount of consideration established and agreed to by the related parties.

13 — STATEMENTS OF CASH FLOWS

Changes in non-cash working capital are as follows:

	2005	2004
Accounts receivable	$(1,026,581)	$ (471,214)
Deposits and prepaid expenses	(364,490)	33,988
Accounts payable and accrued liabilities	487,117	661,280
Advances	118,888	755,515
	$ (785,066)	$ 979,569
Relating to:		
Operating activities	$ (68,438)	$ (24,016)
Investing activities	(716,628)	1,003,585
	$ (785,066)	$ 979,569

14 — LOSS PER SHARE

Basic loss per share is calculated using the weighted average number of shares outstanding during the year.

	2005	2004
Basic and diluted weighted average shares outstanding	47,015,684	31,750,980

15 — FINANCIAL INSTRUMENTS

(a) Fair values

The fair values of accounts receivable, accounts payable and accrued liabilities, amounts due to officers and directors, are approximated by their carrying values because of their short term nature or because they bear interest at market rates. The fair value of the convertible debentures and the convertible promissory notes are considered undeterminable due to the inability to apply a valuation method or obtain market prices.

(b) Interest rate risk

The Company is exposed to interest rate risk to the extent that the convertible debenture and convertible promissory notes are at a fixed rate of interest.

(c) Foreign currency risk

The convertible debenture, a portion of the convertible promissory notes and the Pre-Payment Gold Sales Facility Agreement (note 17(b)) are denominated in US$ and therefore the Company is subject to the risk of fluctuating exchange rates between the C$ and US$.

16 — COMPARATIVE FIGURES:

Certain comparative figures have been reclassified to conform with the current year's presentation.

17 — COMMITMENTS

(a) The Company has granted a net smelter royalty with respect to the production of minerals from the properties owned by the Company in Kazakhstan. The net smelter royalty ranges from 2.5% to 3.0% (dependent on the price of gold) of gross revenue as defined in the Agreement, and amounted to $184,750 in 2005.

(b) Gold Sales and Marketing Agreement
On December 14, 2004 the Company entered into a Gold Sales and Marketing Agreement (the "Sales Agreement") and a US$780,000 Pre-Payment Gold Sales Facility Agreement (the "Pre-Payment Facility"). Under the Sales Agreement, the purchaser has the right to purchase all the gold produced from the current test heap leach and any additional gold that may be produced from the Uzboy Project for the next three years. The Company will be responsible for all costs related to transportation and refining and will pay a marketing fee of 0.95% of gross revenue. Under the Pre-Payment Facility, the Company has the right to receive up to US$750,000 as a pre-payment for gold to be sold to the vendor under the Sales Agreement. Amounts drawn under the Pre-Payment Agreement bear interest at LIBOR plus 8% and are secured by pledge of future deliveries of gold up to a maximum value of US$1,000,000 and a corporate guarantee by the Company. Any unused portion under the Pre-Payment Facility bears interest at LIBOR plus 3%.

At December 31, 2005, advances received from the vendor were US$749,981 (C$874,403) (December 31, 2004 - C$755,515).

(c) Lease Agreement on Premises
The Company is committed under a lease on premises for future minimum rental payments, exclusive of occupancy costs, as follows:

2006	$ 46,170
2007	56,430
2008	37,620

18 — SUBSEQUENT EVENTS

(a) In April 2006, the Company entered into a Mineral Acquisition and Conveyance Agreement whereby the Company purchased 105 mineral claims in south-central British Columbia, Canada. The purchase included the remaining 49% working interest in 55 mineral claims not already owned by the Company (known as the Dot Property) and 100% working interests in 50 mineral claims surrounding the Dot Property. Consideration for the purchase was 225,000 common shares of the Company at $2.28 per common share, plus $200,000 in cash.

(b) Subsequent to December 31, 2005, 3,444,560 common shares of the Company were issued upon the exercise of warrants, for total proceeds of $2,377,776.

19 — SEGMENT INFORMATION

As at December 31, 2005, the Company and its subsidiaries operate in one reportable segment, the exploration for and the development of mineral properties. Identifiable assets, revenues, and net loss in each of its geographic areas are as follows:

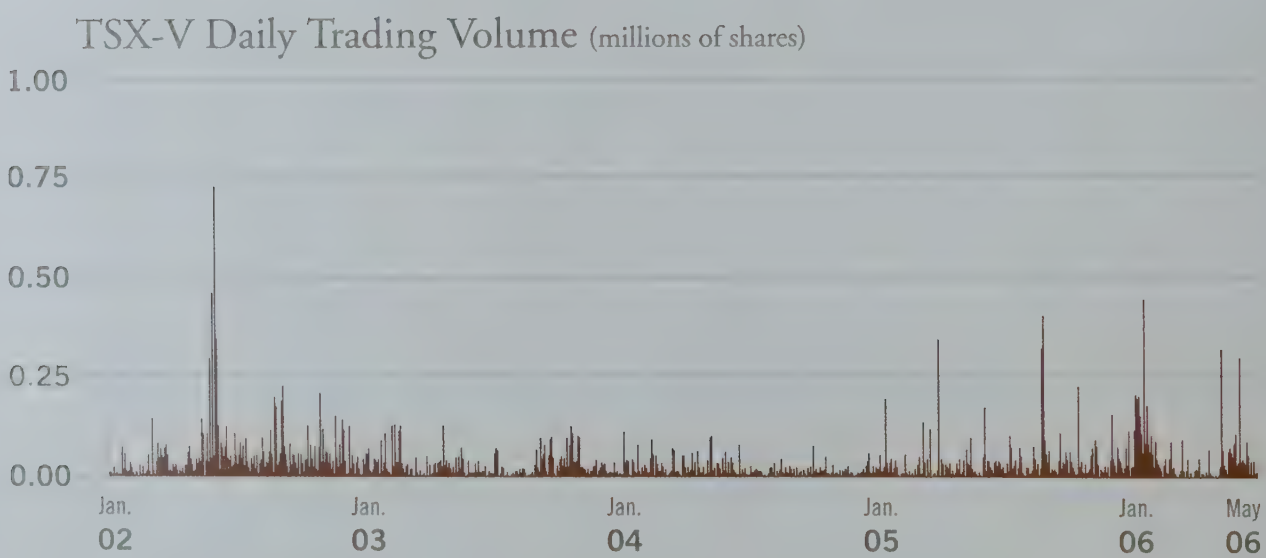
2005	Kazakhstan	Corporate	Total
Net loss [2]	$ -	$ (315,520)	$ (315,520)
Depreciation	-	13,180	13,180
Assets	19,385,917	746,958	20,132,875
Capital expenditures	6,039,066	22,382	6,061,448

2004	Kazakhstan	Corporate	Total
Net loss	$ -	$ (579,260)	$ (579,260)
Depreciation	-	9,670	9,670
Assets [1]	11,968,377	115,565	12,083,942
Capital expenditures	5,235,963	9,972	5,245,935

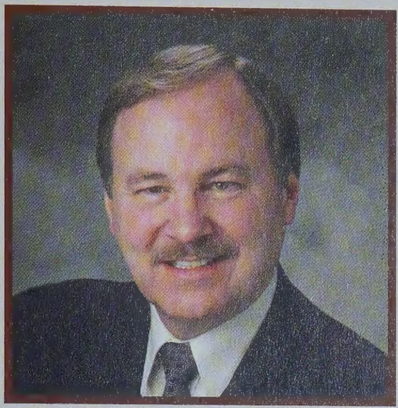
(1) Assets before discontinued operations.

(2) Net loss excludes pre-production operations in Kazakhstan which have been capitalized in deferred exploration and development costs as the operations are still in the development stage.

Share Price Performance



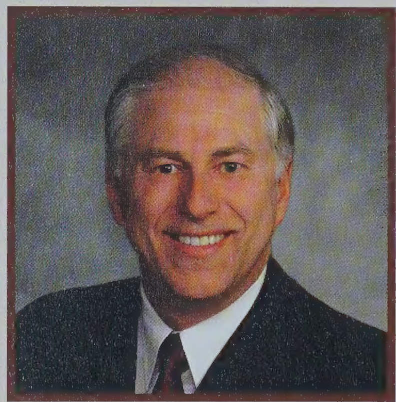
Officers of Alhambra Resources Ltd.



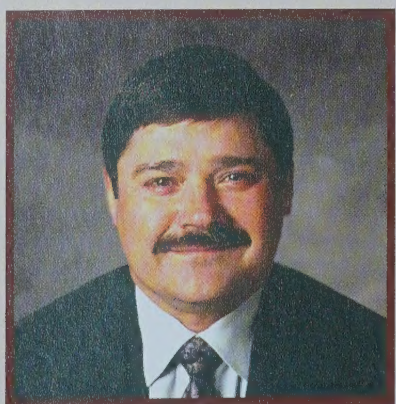
John J. Komarnicki
Chairman and Chief Executive Officer

Elmer B. Stewart
President and Chief Operating Officer

Donald D. McKechnie
Vice President Finance
and Chief Financial Office



Ihor P. Wasylkiw
Vice President
and Chief Information Officer



Michael J. Perkins
Corporate Secretary

Corporate Information

DIRECTORS

John J. Komarnicki
Chairman and Chief Executive Officer,
Alhambra Resources Ltd.
Calgary, Alberta

James S. Bunyan (2) (3) (4)
Financial Consultant
London, England

Michael E. Hriskevich (1) (2) (4)
President, Banaqu Exploration Ltd.
Calgary, Alberta

Gordon L. Levang (1) (3) (4)
Chief Executive Officer,
Polarteck 2000 Ltd.
Calgary, Alberta

Elmer B. Stewart
President and Chief Operating Officer,
Alhambra Resources Ltd.
Calgary, Alberta

Clarence K. Wagenaar (1) (2) (3)
Managing Director, All Investment Ltd.
and Hillcrest Investment Ltd.
Calgary, Alberta

(1) Audit Committee
(2) Corporate Governance
(3) Compensation Committee
(4) Technical Committee

OFFICERS

John J. Komarnicki
Chairman and Chief Executive Officer

Elmer B. Stewart
President and Chief Operating Officer

Donald D. McKechnie
Vice President Finance
and Chief Financial Officer

Ihor P. Wasylkiw
Vice President and
Chief Information Officer

Michael J. Perkins
Corporate Secretary

REGISTRAR AND TRANSFER AGENT

Olympia Trust Company
Calgary, Alberta

AUDITORS

KPMG LLP
Almaty, Kazakhstan
Calgary, Alberta

BANKERS

Royal Bank of Canada
Calgary, Alberta

LEGAL COUNSEL

Borden Ladner Gervais LLP
Calgary, Alberta

Aequitas Law Firm
Almaty, Kazakhstan

INDEPENDENT GEOLOGICAL CONSULTANTS

ACA Howe International Limited
Toronto, Ontario

OFFICE ADDRESS

Corporate Office
Alhambra Resources Ltd.
Suite 330, 700 - 6th Avenue S.W.
Calgary, Alberta, Canada T2P 0T8

Tel: (403) 228-2855
Fax: (403) 228-2865

Website: www.alhambraresources.com

Investor Relations
Email: ir@alhambraresources.com

Contacts:
Ihor P. Wasylkiw
Vice President and CIO

Tel: (403) 508-4953
Fax: (403) 228-2865

Jim Clarke
Tel: +1 (888) 290-1335 (toll free)

SHARE LISTINGS

TSX Venture Exchange
Trading Symbol - **ALH**

Frankfurt Stock Exchange, Open Market
Trading Symbol - **A4Y**

CONVERSION AND EQUIVALENCY TABLES

	Multiply by
Grams to troy ounces	31.104
Kilometres to Miles	0.621
Metres to Feet	3.281

1 square km	=	.386 square miles
1 square km	=	247 acres
1 square mile	=	640 acres

ABBREVIATIONS AND DEFINITIONS

ARO .... Asset Retirement Obligations
C$ .... Canadian dollars
FASB............. Financial Account Standards Board
GAAP............ Generally accepted accounting principles
GKZ .... State Committee for Geology
g/t .... grams per tonne
Goodwin .... Goodwin Golems LLP
KGK .... Hydro-core lift
km............... kilometre(s)
km².............. square kilometre(s)
LIBOR .... London Inter Bank Offering Rate
MD&A .... Management's Discussion and Analysis
ozs .... troy ounces
Pre-payment Facility . Pre-payment Gold Sales Facility Agreement
RAB .... Reverse Air Blast
Saga LLP .... Saga Creek Gold Company LLP
Sales agreement ....Gold Sales and Marketing Agreement
SFAS.............. Statement of financial accounting standards
tonnes .... metric tonnes
US$ .... United States dollars
VAT .... Value Added Tax

FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements that involve risks and uncertainties. These statements relate to the Corporation's future plans, objectives, expectations and intentions. These statements are identified by the use of words such as "may", "will", "expect", "anticipate", "intend", "plan", "estimate", "believe", "continue" or other similar expressions. These forward-looking statements reflect management's current expectations and assumptions as to future events that may not prove to be accurate. Actual results are subject to a number of risks and uncertainties and could differ materially from those discussed in these statements. In light of the many risks and uncertainties surrounding our business and operations, you should keep in mind that the forward-looking statements described in this document may not transpire. The Corporation undertakes no obligation, and does not intend, to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

alhambra

Alhambra Resources Ltd.

www.alhambraresources.com